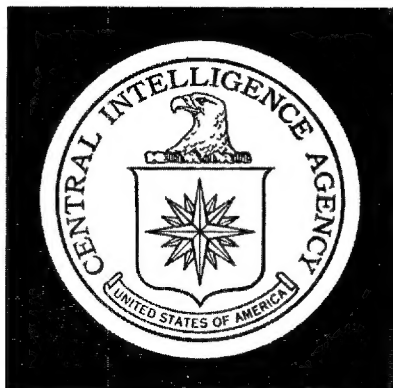


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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Situation in South Vietnam (Weekly)

State Department review completed

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM
(3 January - 8 January 1967)

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I. POLITICAL SITUATION

Premier Ky, in off-the-cuff remarks to newsmen on two separate occasions last week, suggested that he would be willing to hold peace talks with North Vietnamese delegates "anywhere and at any time." During one of the impromptu press queries, Ky also unofficially rejected the request from the Viet Cong to lengthen the four-day GVN Tet cease-fire to seven days.

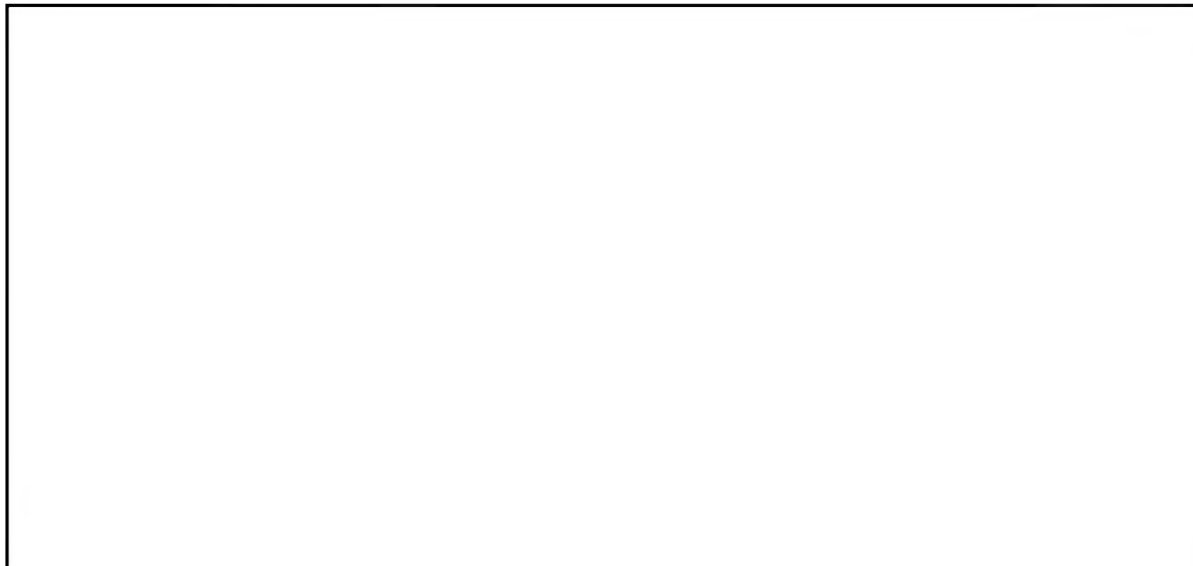
The first draft of the constitution has reportedly been prepared by the drafting committee and will be submitted to the assembly on 11 January. It calls for three equal branches of government with a separation of powers, and checks and balances over each other. The document itself has a preamble and nine chapters. One of the chapters will outline the future constitutional guarantees for overt political parties. If the guarantees are strong enough, some of the hitherto semi-clandestine national parties, including the Revolutionary Dai Viets, may well surface their platforms and membership for the presidential elections.

Ky's Views on Negotiations

1. In consonance with other world-wide expressions of willingness to work toward a negotiated settlement with the Vietnamese Communists, Premier Ky has offered to meet with North Vietnamese President Ho Chi Minh "anywhere and at any time." Ky's brief comment, upon which he did not elaborate, was given to newsmen in the city of Hue on 7 January, some 24 hours after he told reporters in Saigon that negotiations are coming nearer every day. Although his latest remarks appear more flexible than his public stand on the subject of negotiations in the past, they were made in the context of predictions that North Vietnam is moving closer to defeat in the war.

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Tet Cease-Fire

3. During his impromptu press interview in Hue, Ky also rejected the National Liberation Front's request for a seven-day cease-fire over the Lunar New Year (Tet) holidays, beginning on 8 February. Ky hinted that the GVN may even withdraw its original call for a four-day truce in light of the 271 enemy violations during the Christmas and New Year stand-offs. Ky's remarks, however, may not represent the final version of the government's truce plan and an official announcement will probably be forthcoming. The National Liberation Front's offer of a Tet cease-fire was broadcast on 1 January and was accompanied by a request from the "Liberation Army's" high command that Viet Cong troops comply with it.

Constituent Assembly Activities

4. The drafting committee of the Constituent Assembly has prepared the basic constitutional document for presentation to the deputies on 11 January. The process of hammering out the final version on the floor of the assembly will reportedly begin soon thereafter. The drafting committee's initial version of the constitution contains a preamble and nine chapters and this will probably not change before the 11 January session. Six of the chapters, although not necessarily in this order, will be as follows: basic

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provisions; the bill of rights; advisory councils; political parties; constitutional amendments; and transitional provisions.

5. The other three chapters will define the organization and responsibilities of the executive, legislative, and judicial branches of the government. It was initially envisioned that there would be four equal branches of government--legislative, judicial, executive, and an inspectorate. The deputies, however, decided against according an inspectorate the same level of authority as the other three branches. Some type of inspectorate will, however, possibly be subordinated to the legislature in the final version of the constitution.

6. Before the assembly finishes its task of debating the proposed constitution, however, the government will probably interject its views in one way or another on articles which it considers particularly disagreeable. According to an assembly administrative officer, a delegation from the ruling Directorate was scheduled to confer with the drafting committee on 7 January, presumably to set forth some Directorate views on the constitution before it is debated.

7. Among the controversial aspects of the draft constitution, over which the Directorate might try to exert its influence, are the role of the military in future elections, the question of elected province chiefs, and the arrangements for a transition to the newly elected government following the completion of the Constituent Assembly's work. According to US Embassy observers, the assembly apparently favors electing a president as soon as possible after promulgation of the constitution, whereas the Directorate hopes to lengthen the interim period as long as possible.

8. If the Directorate fails to deter the assembly from writing objectionable clauses into the constitution, it can still rely on its power to revise the final assembly version of the draft document as stipulated by decree law 21/66. Most of the deputies agree that, because of their unique mandate from the people to write the constitution, the assembly should be the final arbiter of the document's wording. It appears

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that the assembly deputies will keep up pressure on the government for some form of compromise in its power of amendment. An assembly group has scheduled a press conference for 10 January to try once again to air this issue, according to the US Embassy.

Possible Future Role of the Revolutionary Dai Viet Party

9. The likelihood that South Vietnam's forthcoming constitution may legitimize the role of political parties may jolt some of the country's existing political factions from their traditionally clandestine methods of operation.

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11. The Revolutionary Dai Viet Party, although factionalized, has been one of the most dynamic and well-organized political groups and counts many influential government workers and independent politicians among its members. It is likely that it will be one of the more prominent organizations in backing candidates for the presidential and legislative elections which will probably

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be held later this year. The Revolutionary Dai Viets, however, are strongest in central Vietnam, a factor which will probably hamper their efforts to establish a popular base outside the Saigon area and in the southern provinces.

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II. REVOLUTIONARY DEVELOPMENT

In one district of the delta province of Vinh Binh--Tieu Can District--Revolutionary Development made great strides during 1966 as a result of the efforts of five well-trained, well-equipped Political Action Teams; little progress was made in other districts of the province where operations of seven Revolutionary Development Cadre groups were hindered by poor training and insufficient support from Vietnamese officials and security forces. A thus far successful "village task force" pacification project is under way in a key village in Phong Dinh Province, employing four Revolutionary Development Cadre (RDC) groups under the centralized direction of a task force commander who is also in charge of security forces supporting the RDC groups. A sweep operation is being conducted to secure a formerly Viet Cong - controlled area of Kien Giang Province in order that some 3,000 refugees, who voluntarily evacuated the area in early December, may return safely to harvest their rice. Corruption in Binh Dinh Province, apparently rampant even among high-level provincial officials, is impeding the progress of RD operations there and tending to drive the local populace toward the Viet Cong.

Revolutionary Development in Vinh Binh and Phong Dinh

1. In spite of a relatively poor showing thus far by the seven 59-man RDC groups in Vinh Binh Province, five 40-man PAT teams operating in Tieu Can District, located in the south central part of the province, have been instrumental in achieving the effective pacification of two-thirds of that district. This success in Tieu Can shows what can be accomplished with proper defensive training and equipment and a sufficient number of qualified dedicated technical personnel--advantages which the RDC groups lack.

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The Tieu Can PAT teams have not been plagued by the constant reorganization which has hindered RDC groups and are not subject to the interference of, or restrictions imposed by, provincial and ARVN division officials. In addition, the Tieu Can district chief is capable, honest, and dedicated to bringing pacification directly to the people.

2. Tieu Can had surpassed its 1966 pacification goals by early December, despite the fact that there are no Regional Force or ARVN troops to maintain security. The PAT cadres are themselves well-trained militarily and well-armed. After entering a hamlet, they set up strong defensive positions and recruit and train a group of "combat youth," aged 16 to 60, as a hamlet self-defense unit. The security situation has now reached the point that large Viet Cong units cannot enter pacified areas without the risk that they will be immediately reported, and their attempts at company-size attacks against secured hamlets have been unsuccessful.

3. The PAT teams work on the oil spot theory, concentrating as many as four teams in a single hamlet adjacent to a hamlet which has already been secured. The teams provide a number of services to the local populace; they have cleared areas and built schools and other buildings. The district chief plans to provide limited health service to the people. Health workers will be assigned to hamlet health stations after a month's training in the province capital.

4. Vinh Binh's only other PAT team is presently stationed in Long Toan District in the extreme southeast portion of the province. The district is now almost totally controlled by the Viet Cong, but its prospects for the future are hopeful. A new district chief, who appears capable, has taken over. There is a project planned for the defoliation of 90 percent of the district, which would largely eliminate mangrove swamps which the Viet Cong use as refuges. Also, a program may be initiated to bring back natives of the district who have fled to escape the Viet Cong.

5. RDC groups in the province cannot claim great success, largely as a result of poor training and non-support by some district chiefs and technical service

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chiefs. In addition to a lack of well-trained technical personnel, the teams have insufficient defensive training and equipment, and many are operating in areas which do not have enough Regional or Popular Force units to provide security.

6. Greater success has been achieved by RDC groups in Phong Dinh Province, where a pilot project is under way employing a "village task force" of four RDC groups in Long Tuyen Village, Chau Thanh District. The task force concept is designed to effect pacification through a concentration of RDC cadres in a small area under a centralized command with an American military adviser and with sufficient Vietnamese military forces to provide security. Almost all of Phong Dinh's Revolutionary Development effort is concentrated in three of Long Tuyen Village's six hamlets. A task force commander has command of the RDC groups and of the security forces supporting them. Considerable progress has been made since the RDC groups were first deployed to the three hamlets in mid-October. Until then the hamlets had been considered relatively insecure--as are the three in which RD teams are not stationed at present. By early December, two of the hamlets were reportedly almost ready for certification as secured according to the six-point criteria, and progress was evident in a portion of the third hamlet. The project has apparently been well-received by the local populace, and the RDC's are alert, well-motivated, and well aware of their mission. In areas where the teams have begun operations, small bridges have been built, fences erected, underbrush cleared along trails, and a number of other small projects undertaken.

7. Success of the task force project, however, is threatened by the attitudes of Vietnamese officials connected with it. The task force commander is overly pessimistic, claiming that, because of the number of Viet Cong in the village, pacification cannot be achieved unless the Americans move in in force. The district chief is miffed because he was not informed of the project until it had already begun. He regards it as a project of the Americans and of the province chief whom he detests; for these reasons, he is not giving it his wholehearted support. The province

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chief, on the other hand, appears over anxious to pronounce the project a success, and is ready to certify the three hamlets as secured and move the RDC teams on to the remaining three hamlets in Long Tuyen. Americans on the scene, however, do not feel that the hamlets are yet secured and believe that if the RD teams are removed at this point, the Viet Cong will move back in and nullify what good has been done.

Refugee Situation in Kien Giang Province

8. In a follow-up to the voluntary evacuation in early December of the Viet Cong - controlled Hon Chong Mountain area of Kien Giang Province by approximately 3,000 local inhabitants, a multicompany sector force on 4 January launched a sweep-and-search of the area, which was the location of a Viet Cong base camp. The refugees originally left their home area following an allied psychological warfare campaign, which included leaflet drops urging them to leave to avoid casualties from planned air strikes. The refugees, however, have been anxious to return to their homes to begin harvesting their rice, and the current sweep is designed to reoccupy outposts overrun by the Viet Cong two years ago and to provide continuing security for villagers who return. ARVN troops will remain in the area for this purpose following the conclusion of the sweep, and have already begun providing protection for villagers who have been going to the area to harvest rice in daylight hours. The refugees are currently being given relief supplies by the GVN and by USAID.

Obstacles to Revolutionary Development in Binh Dinh

9. What is apparently rampant corruption in Binh Dinh Province is proving to be a hindrance to the successful completion of RD operations in this area. According to a provincial security official in Binh Dinh, pacification cannot be accomplished unless corrupt officials in that province and others are eliminated. He feels that the only way to win the sympathy of the populace is to provide concrete examples of personal honesty, but that the widespread profiteering by national, provincial, and district level officials

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is working to drive the people toward the Viet Cong. The security official specifically accused the Binh Dinh Province chief, the deputy province chief for administration, and the Qui Nhon garrison commander of corruption and estimated that as many as 500 key men throughout the country are engaging in graft and profiteering.

Viet Cong Defectors (Chieu Hoi).

10. The year 1966 was a banner one for the Communist defector program. The final tally of defectors of all types as compiled by the Ministry of Information and Chieu Hoi, is 20,242 for the year, and 82-percent increase over 1965. The total number of defectors since the program was conceived approximately four years ago is nearly 50,000. Most of the enemy who voluntarily fled the Viet Cong and North Vietnamese Army were lower level personnel. However, one of the most profitable sources of information to date on the North Vietnamese Army and the Central Office for South Vietnam (COSVN) was also a defector.

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III. ECONOMIC SITUATION

Price data for the week ending 3 January have not been received. Because commercial banks are taking full advantage of the credit facilities of the National Bank of Vietnam, credit for imports is reportedly available and being used. Talks are continuing between US and GVN officials on an economic stabilization agreement for 1967. Reporting from Ba Xuyen Province indicates that the price of paddy has continued to rise as a result of the new GVN paddy purchase price. Although it appears that Ba Xuyen and three neighboring provinces have had good rice harvests, there is widespread concern about Viet Cong involvement in the new harvest.

Rice Situation

1. As a result of the recent GVN announcement of a 7.5-piaster per kilogram minimum purchase price for paddy, the free market price of new paddy at Soc Trang in Ba Xuyen Province rose to 8.3 piasters on 30 December compared with a recent price of 6.5 piasters. Merchants in this province reported that prices will continue to rise until Tet (8-15 February) when they expect a leveling off. These merchants also stated that although they are pleased with the GVN decision to double the amount of credit available last year, they fear this amount may be insufficient in view of the doubled paddy purchase price.

2. The major rice producing province of Ba Xuyen and the neighboring provinces of Bac Lieu, Chuong Thien and Phong Dinh have had good rice harvests, according to information gathered in Ba Xuyen Province on 30 December. It is estimated that the harvest in Ba Xuyen is about equal to that of last year. There apparently is widespread concern, however, about Viet Cong involvement in this year's harvest. It appears that the Viet Cong are making it known that, unlike last year when they taxed rice heavily in terms of money, they will take

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taxes in rice this year. Although there are reports indicating that the Viet Cong have announced a reduction in their rice production tax schedules, the provincial police adviser stated that there are indications of higher tax rates. In addition, the merchants feel that Viet Cong collection will be pursued more vigorously, resulting in collection of taxes from more people. The merchants in Ba Xuyen Province also are concerned about Viet Cong control of transportation routes and are urging the GVN to open canals and clear the way for rice shipments.

3. On 29 December, Minister of Commerce An met with US officials to discuss the rice stock situation. Minister An is extremely worried about the current low level of stocks and does not expect large deliveries from the delta in January when rice merchants are just beginning to operate. Moreover, in contrast to the reports from Ba Xuyen Province, An reported that a GVN committee which recently toured the delta, had a pessimistic impression of the new crop. He also stated that the GVN had not made any arrangements for importing rice with its own foreign exchange. US officials made it quite clear that the GVN could not rely on the US to cover all of its rice requirements and urged An to start purchasing on the world market immediately.

Economic Stabilization

4. Talks are continuing between US and GVN officials on an economic stabilization agreement for 1967 which will cover piaster spending limitations, revenue targets, foreign exchange expenditures by the GVN, and related problems. Governor Hanh of the National Bank of Vietnam has submitted a draft agreement which provides for a total GVN budget of 88 billion piasters, or about 35 percent above the 1966 budget. Of the 88 billion piasters, 75 billion is for the regular budget, 9 billion for rice and fertilizer subsidies, 3 billion for economic development and 1 billion for a contribution to free world forces. Hanh's draft agreement also proposes a transfer of all US counterpart funds to the military budget and estimates total GVN-financed

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imports at \$350 million, including \$120 million transferred from the commercial import program. A major point of difference between the US and GVN is that Hanh's draft agreement does not include specific steps to assure GVN compliance with its earlier commitment to maintain a foreign exchange balance not in excess of \$250 million.

Banking and Credit Developments

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5.

rediscounting of import bills with the National Bank of Vietnam (NBVN) has been increasing rapidly. Outstanding rediscount credit rose to 4.7 billion piasters on 10 December compared with a total of 400 million piasters on 24 September. The increase during the week of 3 December alone was 1 billion piasters. It appears, therefore, that the commercial banks are taking full advantage of the credit facilities of the NBVN and that credit is available and is being used.

6. The commercial banks also have jointly agreed to reduce the margin required on opening letters of credit from 40 to 25 percent cash for a restricted group of commodities which may become scarce if the 40 percent margin is retained. Among these commodities are trucks, spare parts for vehicles, generators and galvanized iron sheets. This reduction in margin requirements should help to raise the level of commercial import program licensing, which has been very low during the past three months.

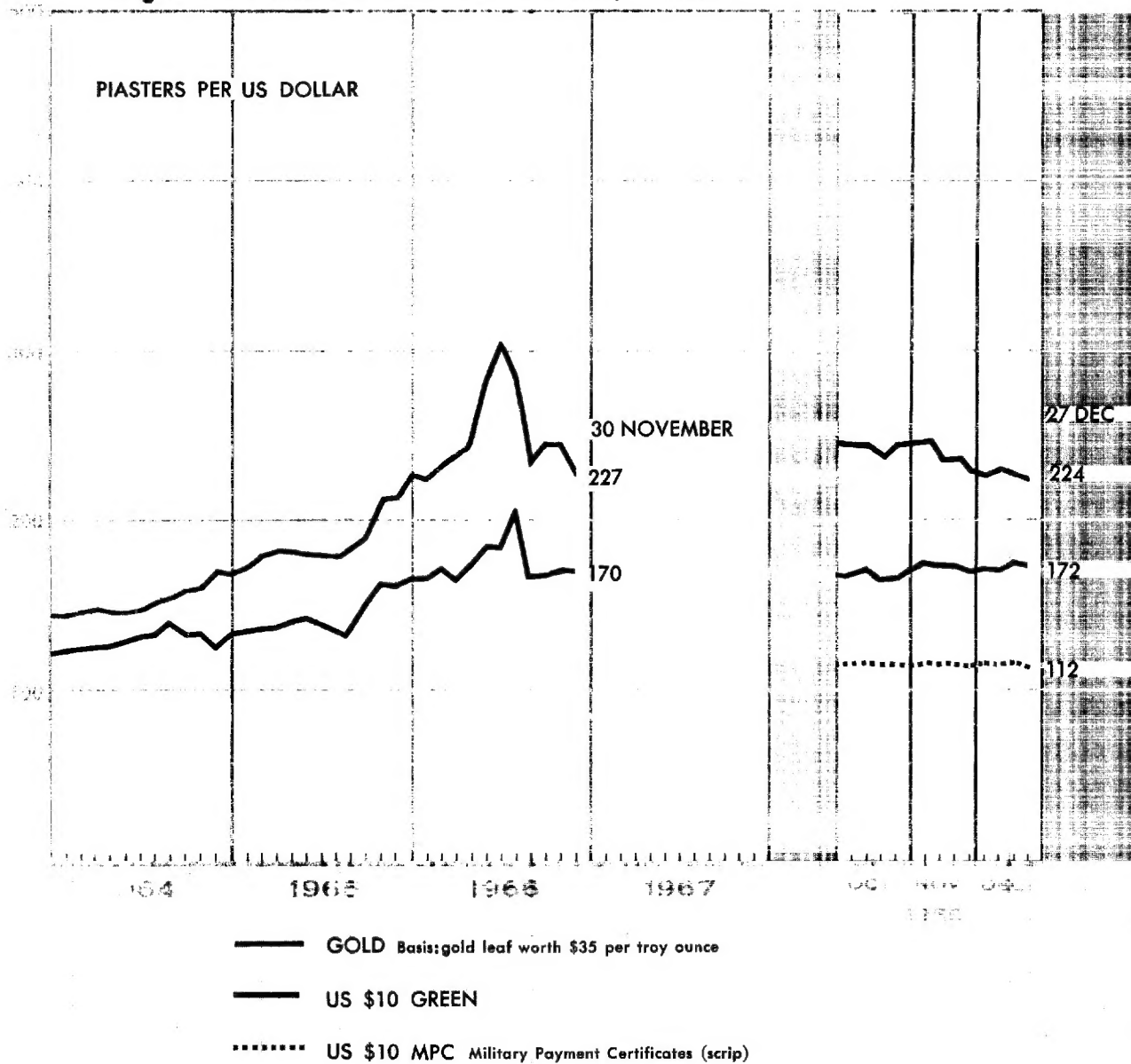
7. Another banking development concerns the imminent failure of one of South Vietnam's small banks--Tin Nghia--which reportedly is unable to meet its clearing with other banks. As of 2 January, only the other banks knew about Tin Nghia's real situation. Unless this bank was bailed out by the NBVN on that day, however, Tin Nghia's difficult position undoubtedly became common knowledge in the market as checks drawn against it would not be accepted by other banks.

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Saigon Free Market Gold and Currency Prices



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